



The Magnitude of Change Effect in Store Remodeling

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Abstract

While store remodeling can increase customer sales, not all remodeling efforts are successful. In this study, two treatment stores from a large national retailer are matched with control stores in a field experiment. Even though the cost of remodeling the treatment stores was the same, and the remodeled stores had identical layout, color, furnishing and interior design, one store had a 12% lift in sales while the other had only 1%. We show that a key determinant of remodeling success is the perceived magnitude of change between the initial and final condition of the store. Indeed, customer psychological and sales responses are greater when the perceived magnitude of change between the condition of the store prior to remodeling and the store after remodeling is larger. Importantly, these positive effects continue for as long as 12 months after remodeling. We further find that the profile of customers drawn to the remodeled stores differs based on the perceived magnitude of change, as do the environmental attributes that contribute to customer perceptions of the remodel.

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Introduction

As online and mobile retailers capture more of the market (Durden 2016) and bricks-and-mortar retailers struggle with declining sales (Sparshott 2016), the physical store environment has become more important than ever. Indeed, many retailers are looking to store remodeling as a way to remain relevant in the face of these challenges. For example, Walmart executives have made improving the in-store experience a top priority, while Target and Macy's have already taken steps to create better store environments, and Walgreen Co.'s Duane Reade stores are being remodeled in a re-branding effort (Heller 2015). Even grocery stores are undergoing transformation as Whole Foods remodels to enhance the shopping experience for its customers (Heller 2015). Bricks-and-mortar stores allow customers to see and feel merchandise before they purchase. They can also provide a third place, where customers can connect and take part in meaningful social experiences. The in-store experience must therefore

be compelling, with the best retail stores creating visually stimulating and engaging environments. Every design detail, such as the way product is displayed, the type of flooring, the color scheme, and the way lighting is directed can impact the way a customer perceives the brand, the company, and ultimately how much time and money they spend in-store.

Architects, environmental psychologists, and interior designers have long acknowledged the critical impact that store environment has on behavior. Marketers, too, have considered the role of a store's physical environment on customer responses (see, e.g., Bitner 1992; Brügger, Foubert, and Gremler 2011; Dagger and Danaher 2014). While many studies have examined the impact of stand-alone environmental attributes (like color and lighting) on customer behavior, Brügger, Foubert, and Gremler (2011) provide the first insights into the effect remodeling an entire store has on customer responses. They find that short-term customer cognitions and behavioral intentions improve significantly because of remodeling, as does customer spending but these effects tend to lose strength in the long-term, returning to their pre-remodeling levels. While Brügger, Foubert, and Gremler (2011) consider the effects of store remodeling on all customers, Dagger and Danaher (2014) provide a more nuanced investigation by exploring the effect of store remodeling on new and existing customers. They find

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that although sales increase after store remodeling for both new and existing customers, sales for new customers are significantly higher than for existing customers and this difference persists for up to a year.

While [Dagger and Danaher \(2014\)](#) examine the impact of store remodeling on customer reactions for just one customer characteristic (new versus existing), such characteristics are inherent to individuals themselves, but are not directly actionable by managers. In contrast, store environment characteristics are managerially actionable via remodeling; consequently, examining their impact on customer responses is an important yet unexplored research area. We examine in this study whether the condition of a retail store's environment prior to remodeling impacts customer psychological and sales responses over time. We look at two different store remodeling situations. In one, the store environment is extremely dated and has what we term a "low initial reference point" prior to remodeling. In the other, the store environment is much less dated but nonetheless is in need of remodeling. Such a store has what we call a "high initial reference point." We examine how the baseline condition, or the initial reference point, of a store prior to remodeling impacts key customer outcomes over time.

The baseline condition of a store's environment prior to remodeling depends on the retailer's remodeling schedule, as well as market pressures and the firm's financial performance. Counter-intuitively, it is not always the case that a firm will automatically remodel the "oldest" store in a network first. Instead, firms may use a range of metrics when deciding which stores to remodel. The retailer in our study, for example, bases their remodeling decisions on factors related to the mall in which the store is located, competitor actions, mall tenancy agreements, the specific demographics (and shifts in these factors) of a store's catchment area, store traffic and sales – rather than simply choosing the store with longest duration since remodeling. While the remodeling schedule signals when a firm might consider remodeling a store, the cost, which is estimated to be around \$3.7 million per store ([Weitzel 2010](#)), can be prohibitive. In addition, with several high profile retailers, like J. C. Penney, Best Buy and Sears, experiencing the public pain of remodeling failures ([Avis 2013](#); [Cheng 2012](#)) retailers may be keen to postpone store remodeling to a future date.

In the case of retailers with multiple stores, this means that one store may undergo remodeling after just 7 years, while another store may not be remodeled for as long as 20 years. This is certainly the case for the national retailer in our study. This also means that within a single retail chain, there may be several stores in different locations undergoing remodeling at the same time, but the baseline condition of the store's environment prior to remodeling may vary greatly. A store that was remodeled around 7 years ago, near 2010, will be much less dated than a store that was last furnished with 1990s décor and styling. The magnitude of change, as a result of the remodeling effort, will be larger in the case of the store that was last remodeled in the 1990s and smaller in the case of the store that was remodeled around 2010. We propose that the magnitude of change, as captured by the difference between customers' perceptions of a store's initial condition and its remodeled condition, will impact customer

responses to store remodeling over time. We believe that this may explain why some store remodels are more successful than others.

The notion that the magnitude of change between a store's initial and remodeled condition will have different psychological and behavioral consequences is underpinned by assimilation-contrast theory ([Sherif, Taub, and Hovland 1958](#)). This theory suggests that decision outcomes are based on the perceived difference between an initial reference point and any subsequent information ([Dillard, Kauffman, and Spires 1991](#); [Helson 1964](#); [Sherif, Taub, and Hovland 1958](#)). If the magnitude of the change between these points is large, a strong contrast effect is likely to drive customer responses; however, if the magnitude of the change is small, this will lead to an assimilation effect that will attenuate customer responses. A key question arising from this is whether a larger magnitude of change or contrast effect would drive an increase in customer perceptions. That is, could we expect greater customer satisfaction, increased word-of-mouth, and greater store loyalty for customers of the store with the low initial reference point? Further, and critically, would this induce customers to spend more in the store?

Conceptualization and Hypotheses

The Reference Point Effect

Assimilation-contrast theory posits that the disparity between new information and an individual's initial reference point drives subsequent beliefs and perceptions ([Anderson 1973](#)). The initial reference point serves as the zero point on a scale of comparison, and each subsequent alternative is seen as a gain or a loss compared to that reference point ([Rowe and Puto 1987](#)). Moreover, assimilation towards the initial reference point is most likely to occur only up to a certain level of perceived disparity between the adaptation level and new information. If new information or perceptions fall within expectations (or zone of assimilation) then the actual discrepancy between the initial and new reference point is most likely underestimated and perceived as smaller than it actually is – meaning that an assimilation effect has occurred ([Anderson 1973](#); [Kalyanaram and Winer 1995](#); [Yang and Huang 2012](#)). In contrast, if new information or perceptions fall outside expectations (or zone of assimilation), then the perceived discrepancy between the adaptation level and new information is likely to be overestimated or magnified and perceived as larger than it actually is – meaning that a contrast effect occurred ([Anderson 1973](#); [Kalyanaram and Winer 1995](#); [Richards, Gomez and Printerzis 2016](#)).

We propose that store remodeling acts as a source of new information for customers, which is compared against their perceptions of the store before remodeling. The resulting evaluation then drives customer psychological and behavioral responses. Importantly, these evaluations are influenced by the magnitude of change (discrepancy) between the initial reference point and new information presented by the store remodel. If the difference between these points falls within the customer's expectations, then it will be assimilated into their pre-existing beliefs. Further, the magnitude of change as a result of the remodel will

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